



HOME OF THE VIKINGS

LITTLEFIELD PUBLIC SCHOOL

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

LITTLEFIELD PUBLIC SCHOOL
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INDEPENDENT AUDITORS' REPORT

September 22, 2008

Board of Education
Littlefield Public School
Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Littlefield Public School***, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of ***Littlefield Public School's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of ***Littlefield Public School*** as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of ***Littlefield Public School's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Littlefield Public School's*** basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Littlefield Public School (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,472,989 (*net assets*). Of this amount, \$275,862 (*unrestricted net assets*) may be used to meet the District's ongoing obligations and \$13,042 is restricted for debt service.
- The government's total net assets increased by \$53,680, which is primarily related to a decrease in Athletic Director salary of approximately \$32,000.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$510,131, a decrease of \$142,860 in comparison with the prior year. Approximately 97%, or \$497,089, is *available for spending* at the District's discretion (*unreserved fund balance*). Of the unreserved fund balance, 47% or \$233,896 has been designated for capital improvements and retirement benefits.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$255,031 or 8% of total General Fund expenditures (excluding transfers).
- The District's total debt decreased by \$335,816 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the District-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2008.

The District-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund and the 1999 Debt Retirement Fund, which are considered to be the two major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund and each special revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The only fiduciary fund of the District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 19-31 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund and other statements and schedules can be found on pages 32-40 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded its liabilities by \$1,472,989 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (80%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance, (19% or \$275,862), is *unrestricted net assets* and is available for spending at the District's discretion.

Littlefield Public School Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 880,396	\$1,093,331
Capital assets, net	<u>3,482,647</u>	<u>3,615,127</u>
Total assets	<u>4,363,043</u>	<u>4,708,458</u>
Liabilities		
Current and other liabilities	802,589	802,611
Long-term liabilities outstanding	<u>2,087,465</u>	<u>2,486,538</u>
Total liabilities	<u>2,890,054</u>	<u>3,289,149</u>
Net assets		
Invested in capital assets, net of related debt	1,184,085	1,011,565
Restricted	13,042	38,353
Unrestricted	<u>275,862</u>	<u>369,391</u>
Total net assets	<u>\$1,472,989</u>	<u>\$1,419,309</u>

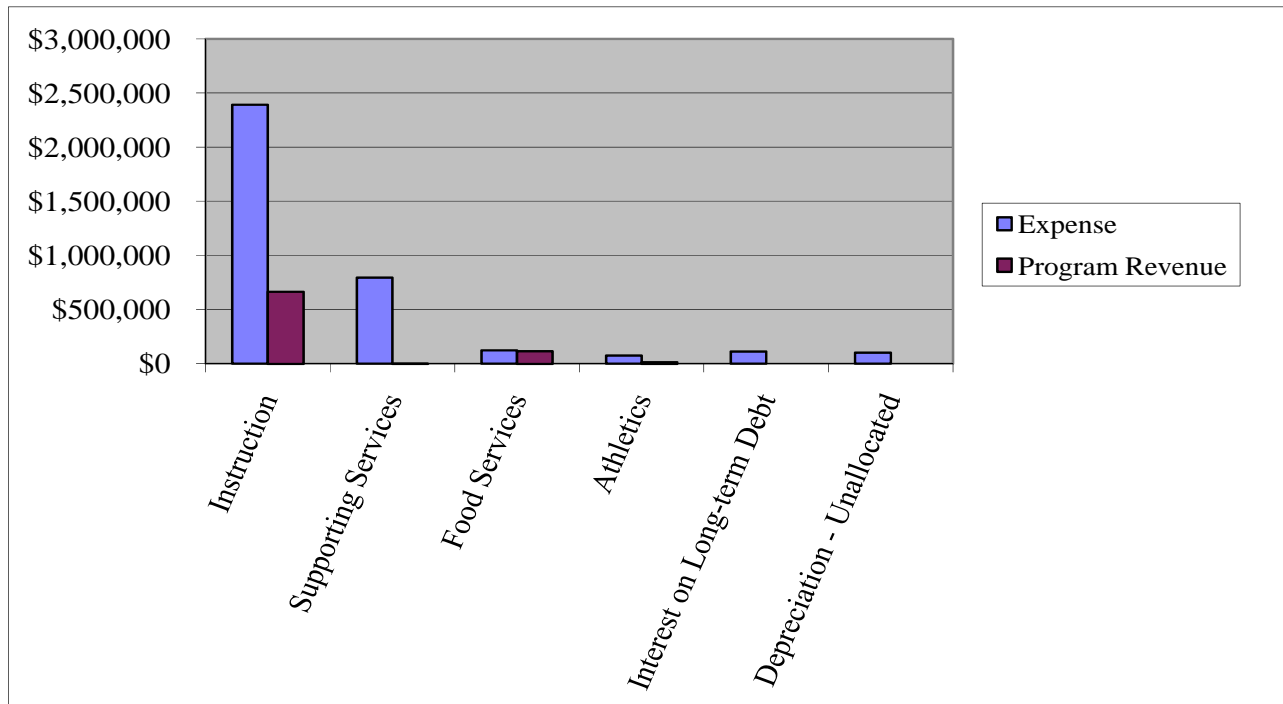
The District's net assets increased by \$53,680 during the current fiscal year. Of this increase, approximately \$32,000 relates to a decrease in Athletic Director salaries.

Littlefield Public School
Condensed Statement of Changes in Net Assets

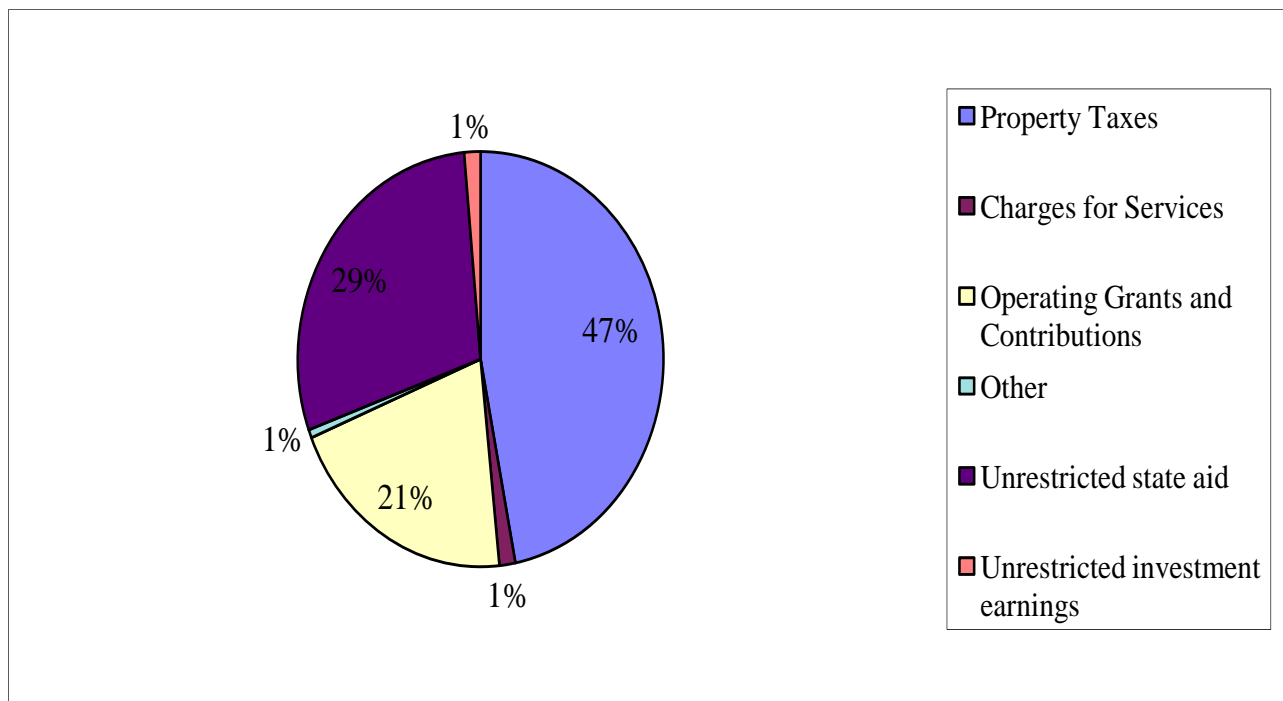
	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues		
Charges for services	\$ 51,283	\$ 57,887
Operating grants and contributions	746,547	783,842
General revenues		
Property taxes	1,712,829	1,559,645
Unrestricted state aid	1,061,572	1,277,924
Unrestricted investment earnings	52,501	66,370
Other	<u>23,368</u>	<u>11,206</u>
Total revenues	<u>3,648,100</u>	<u>3,756,874</u>
Expenses		
Instruction	2,391,090	2,347,898
Supporting services	794,981	854,099
Food services	122,765	135,814
Athletics	73,560	105,864
Interest on long-term debt	112,016	117,280
Depreciation – unallocated	<u>100,008</u>	<u>143,497</u>
Total expenses	<u>3,594,420</u>	<u>3,704,452</u>
Change in net assets	53,680	52,422
Net assets, beginning of year	<u>1,419,309</u>	<u>1,366,887</u>
Net assets, end of year	<u>\$1,472,989</u>	<u>\$1,419,309</u>

Governmental activities. Governmental activities increased the District's net assets by \$53,680.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$510,131, a decrease of \$142,860 in comparison with the prior year. Approximately 97% or \$497,089 of this total amount constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in contractual obligations for repayment of bonds and are not available for current expenditures.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$255,031, while total fund balance was \$488,927. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated and total fund balance to total fund expenditures. Unreserved, undesignated fund balance and total fund balance represent approximately 8% and 15%, respectively, of total General Fund expenditures (excluding transfers).

The fund balance of the District's General Fund decreased by \$109,558 during the current fiscal year. This decrease is primarily attributable to fewer than anticipated students and decreases in state aid and Title I revenue.

General Fund Budgetary Highlights

The following were differences between the original and final amended budgets (all numbers are approximate):

- Property taxes, original budget \$1,300,000, amended budget \$1,330,179; attributable to higher than anticipated property values.
- State school aid, original budget \$1,150,000, amended budget \$1,061,569; attributable to fewer students than anticipated.
- Other state revenue, original budget \$168,990, amended budget \$194,824; attributable to At-Risk funds greater than anticipated.
- Elementary - salaries, original budget \$444,8942, amended budget \$520,347; attributable to the District reinstating an employee that was laid off after the original budget was approved and due to part of another teachers time charged from compensatory education to elementary education.
- Compensatory education - salaries, original budget \$80,321 amended budget \$73,293; attributable to part of a teachers time charged to a different area.

- There were no amounts budgeted for principal – early retirement incentives; however, the amended budget was adjusted to \$63,500 for the actual special termination benefits expense incurred. The termination benefits paid were to be taken from the designated fund balance.
- School administration - purchased services, office of the principal, original budget \$116,150, amended budget \$122,593; attributable to spending more than anticipated.
- Total pupil transportation services, original budget \$97,707, amended budget \$71,964; attributable to fewer drivers than planned and by contracting out mechanical service for busses. As a result, spending was less than anticipated.
- Executive administration salaries and benefits, originally budgeted for \$12,094, was amended to budget \$163,756 to reflect actual amounts of the Superintendent's salary and benefits. Of the actual amounts paid, approximately \$20,000 was paid as a termination longevity stipend. In addition to the above, the Superintendent did not leave the District during 2007-2008 as planned in the original budget.

Differences between the final amended budget and actual revenues and expenditures were relatively minor.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$3,482,647 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Littlefield Public School Capital Assets (net of depreciation, if applicable)	
Land	\$ 6,000
Buildings	3,025,032
Site Improvements	337,288
Equipment	49,904
Vehicles	<u>64,423</u>
Total	<u>\$3,482,647</u>

Additional information on the District's capital assets can be found in Note III C on page 26 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$2,298,562. Of this amount, \$23,562 is a Durant resolution bond which is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state appropriations.

The net decrease in the special termination benefits was \$2,374. These changes, combined with bond repayments of \$305,000, resulted in a net decrease in total long-term debt of \$335,816 (13%) during the current fiscal year.

Additional information on the District's long-term debt can be found in Note III F on pages 27-29 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008-2009 fiscal year:

- Projected number of students enrolled for the 2008/2009 fiscal year decreased to 315 (347 actual pupil count for 2007/2008 fiscal year).
- In anticipation of a continuing financial downturn in 2008-2009, several budget cuts were made in staffing levels, including two teacher retirements that are planned to be replaced with lower paid teachers.
- Inflationary trends in the region compare favorable to national indices.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffery Liedel, Superintendent, 7400 North Street, Alanson, MI 49706.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF NET ASSETS

JUNE 30, 2008

Assets	
Current assets	
Cash and cash equivalents	\$ 303,019
Investments	325,020
Receivables	<u>249,841</u>
Total current assets	877,880
Capital assets, net of accumulated depreciation, if applicable	<u>3,482,647</u>
Total assets	<u>4,360,527</u>
Liabilities	
Current liabilities	
Payables	338,303
Unearned revenue	26,777
Current portion of long-term debt	<u>434,993</u>
Total current liabilities	800,073
Noncurrent portion of long-term debt	<u>2,087,465</u>
Total liabilities	<u>2,887,538</u>
Net assets	
Invested in capital assets, net of related debt	1,184,085
Restricted for debt service	13,042
Unrestricted	<u>275,862</u>
Total net assets	<u>\$ 1,472,989</u>

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 2,391,090	\$ 11,290	\$ 654,590	\$ (1,725,210)
Supporting services	794,981	-	1,650	(793,331)
Food services	122,765	25,875	90,307	(6,583)
Athletics	73,560	14,118	-	(59,442)
Interest on long-term debt	112,016	-	-	(112,016)
Depreciation - unallocated	100,008	-	-	(100,008)
Total governmental activities	\$ 3,594,420	\$ 51,283	\$ 746,547	(2,796,590)
General revenues				
Property taxes - operations				1,330,179
Property taxes - debt service				382,650
Unrestricted state aid				1,061,572
Unrestricted investment earnings				52,501
Other				23,368
Total general revenues				2,850,270
Change in net assets				53,680
Net assets, beginning of year				1,419,309
Net assets, end of year				\$ 1,472,989

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	1999 Debt Retirement Fund	Non- Major Funds	Total
ASSETS				
Cash and cash equivalents	\$ 277,921	\$ 13,042	\$ 12,056	\$ 303,019
Investments	325,020	-	-	325,020
Due from other governmental units	225,141	-	24,700	249,841
Total assets	\$ 828,082	\$ 13,042	\$ 36,756	\$ 877,880
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,482	\$ -	\$ -	\$ 3,482
Salaries payable and related expenses	311,412	-	2,516	313,928
Due to other governmental units	-	-	-	-
Deferred revenue	26,777	-	23,562	50,339
Total liabilities	341,671	-	26,078	367,749
Fund balances				
Reserved				
Debt service	-	13,042	-	13,042
Unreserved				
Designated				
Capital improvements	10,000	-	-	10,000
Retirement benefits	223,896	-	-	223,896
Undesignated, reported in				
General Fund	252,515	-	-	252,515
Special Revenue Funds	-	-	10,678	10,678
Total fund balances	486,411	13,042	10,678	510,131
Total liabilities and fund balances	\$ 828,082	\$ 13,042	\$ 36,756	\$ 877,880

Continued...

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds	\$ 510,131
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds.

Add	- capital assets	6,951,171
Deduct	- accumulated depreciation	(3,468,524)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by unearned revenues in the governmental funds, and thus are not included in fund balance.

Add	- deferred revenues related to Durant settlement	23,562
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct	- bonds payable	(2,298,652)
	- compensated absences	(96,270)
	- early retirement	(127,626)
	- accrued interest on bonds payable	(20,803)

Net assets of governmental activities	\$ 1,472,989
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Concluded

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	General	1999 Debt Retirement Fund	Nonmajor Funds	Total
Revenues				
Local sources				
Property taxes	\$ 1,330,179	\$ 382,650	\$ -	\$ 1,712,829
Charges for services	11,290	-	39,993	51,283
Interest	45,977	6,249	275	52,501
Other local revenue	25,018	-	-	25,018
State sources	1,256,399	-	3,346	1,259,745
Federal sources	157,301	-	86,961	244,262
Interdistrict sources	306,453	-	-	306,453
Total revenues	3,132,617	388,899	130,575	3,652,091
Expenditures				
Current				
Instruction	2,355,670	-	-	2,355,670
Supporting services	766,927	-	-	766,927
Food services	-	-	121,932	121,932
Athletics	-	-	72,712	72,712
Debt service				
Principal	63,500	305,000	-	368,500
Interest	-	109,210	-	109,210
Total expenditures	3,186,097	414,210	194,644	3,794,951
Revenues under expenditures	(53,480)	(25,311)	(64,069)	(142,860)
		-		
Other financing sources (uses)				
Transfers in	-	-	58,594	58,594
Transfers out	(58,594)	-	-	(58,594)
Total other financing sources (uses)	(58,594)	-	58,594	-
Changes in fund balances	(112,074)	(25,311)	(5,475)	(142,860)
Fund balances, beginning of year	598,485	38,353	16,153	652,991
Fund balances, end of year	\$ 486,411	\$ 13,042	\$ 10,678	\$ 510,131

Continued...

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$ (142,860)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(132,480)
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Current revenues in the funds that were recorded as revenues in prior years in the statement of activities.

Deduct - decrease in unearned revenue related to Durant settlement	(3,991)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add - principal payments on long-term liabilities	305,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net decrease in the accrual for retirement incentives	2,375
Deduct - increase in accrued interest payable on bonds	(2,806)
Add - net decrease in the accrual for compensated absences	28,442

Change in net assets of governmental activities	\$ 53,680
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Concluded

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Budget			Variance - Positive (Negative) Amended to Actual
	Original	Amended	Actual	
Revenues				
Local sources	\$ 1,341,100	\$ 1,412,399	\$ 1,412,464	\$ 65
State sources	1,318,990	1,256,393	1,256,399	6
Federal sources	165,000	157,078	157,301	223
Interdistrict sources	265,313	336,792	306,453	(30,339)
Total revenues	3,090,403	3,162,662	3,132,617	(30,045)
Expenditures				
Education				
Instruction	2,188,317	2,360,438	2,355,670	4,768
Support services	809,492	797,450	766,927	30,523
Debt service				
Principal	-	63,500	63,500	-
Total expenditures	2,997,809	3,221,388	3,186,097	35,291
Revenues over (under) expenditures	92,594	(58,726)	(53,480)	5,246
Other financing uses				
Transfers out	(70,000)	(58,595)	(58,594)	1
Changes in fund balance	22,594	(117,321)	(112,074)	5,247
Fund balance, beginning of year	598,485	598,485	598,485	-
Fund balance, end of year	\$ 621,079	\$ 481,164	\$ 486,411	\$ 5,247

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

JUNE 30, 2008

ASSETS	
Cash and cash equivalents	<u><u>\$ 23,115</u></u>
LIABILITIES	
Due to student groups	\$ 21,587
Scholarship payable	<u> 1,528</u>
Total liabilities	<u><u>\$ 23,115</u></u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Littlefield Public School (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses, of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *1999 Debt Retirement Fund* accounts for principal and interest payments on the bonds used to finance various construction projects in the District.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the food service and athletic programs sponsored by the District.

The *Durant Settlement Debt Service Fund* accounts for the principal and interest payments on the bonds provided to the school district that relate to the Durant debt.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Site Improvements	20
Equipment	5-20
Vehicles and Buses	5-8

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

3. *Termination benefits*

Compensated absences

District policy permits certain employees, including teachers and support staff, to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the District. All sick time is accrued when incurred in the District-wide statements.

No liability is recorded in the District-wide statements for accumulated vacation since hours earned do not vest.

Special termination benefit

Occasionally, the District offers special incentives to employees during a brief period to encourage early retirement. All special termination benefits are accrued when incurred in the District-wide statements.

4. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and each special revenue fund. All annual appropriations lapse at fiscal year end.

The General Fund and each special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General Fund and each special revenue fund are adopted on a functional basis.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 303,019
Investments	<u>325,020</u>
Total Statement of Net Assets	628,039
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	<u>23,115</u>
Total cash and cash equivalents and investments	<u>\$ 651,154</u>

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

A reconciliation of cash and cash equivalents as shown in the financial statements to the District's deposits and investments is as follows:

Bank deposits	\$ 326,134
Investments in securities and mutual funds	<u>325,020</u>
Total deposits and investments	<u>\$ 651,154</u>

State statutes authorize the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 326,134	n/a
Michigan Liquid Asset Fund	n/a	<u>325,020</u>	S&P – AAAM
		<u>\$ 651,154</u>	

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$323,413 of the District's bank balance of \$424,106 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables in the governmental activities are 100 percent due from other governments.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets being depreciated				
Buildings	5,806,555	-	-	5,806,555
Site improvements	572,618	-	-	572,618
Equipment	254,020	-	-	254,020
Vehicles and buses	311,978	-	-	311,978
Total capital assets being depreciated	<u>6,945,171</u>	<u>-</u>	<u>-</u>	<u>6,945,171</u>
Accumulated depreciation				
Buildings	(2,709,230)	(72,293)	-	(2,781,523)
Site improvements	(207,552)	(27,778)	-	(235,330)
Equipment	(198,180)	(5,936)	-	(204,116)
Vehicles and buses	(221,082)	(26,473)	-	(247,555)
Total accumulated depreciation	<u>(3,336,044)</u>	<u>(132,480)</u>	<u>-</u>	<u>(3,468,524)</u>
Total capital assets being depreciated, net	<u>3,609,127</u>	<u>(132,480)</u>	<u>-</u>	<u>3,476,647</u>
Governmental activities capital assets, net	<u>\$3,615,127</u>	<u>\$ (132,480)</u>	<u>\$ -</u>	<u>\$3,482,647</u>

Depreciation expense was charged to functions/programs of the District as follows:

Supporting services	\$ 30,791
Food service	833
Athletics	848
Depreciation – unallocated	<u>100,008</u>
Total depreciation expense	<u>\$ 132,480</u>

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

D. Payables

Payables are comprised of the following at June 30, 2008:

Accounts payable	\$ 3,482
Salaries payable and related expenses	313,928
Accrued expenses	20,893
Due to other governmental funds	<u>2,516</u>
Total payables	<u>\$ 340,819</u>

E. Interfund transfers

Transfers are used to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, interfund transfers consisted of \$58,594 in transfers from the General Fund to the Nonmajor Special Revenue Athletics Fund to subsidize the athletic program.

F. Long-Term Debt

Long-term debt of the District consists of the following as of June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation debt	\$2,580,000	\$ -	\$ 305,000	\$2,275,000	\$ 330,000
Durant resolution debt	<u>23,562</u>	<u>-</u>	<u>-</u>	<u>23,562</u>	<u>2,221</u>
Total bonds payable	<u>2,603,562</u>	<u>-</u>	<u>305,000</u>	<u>2,298,562</u>	<u>332,221</u>
Other liabilities					
Compensated absences	124,712	-	28,442	96,270	2,147
Special termination benefit	<u>130,000</u>	<u>61,126</u>	<u>63,500</u>	<u>127,626</u>	<u>100,625</u>
Total other liabilities	<u>254,712</u>	<u>61,126</u>	<u>91,942</u>	<u>223,896</u>	<u>102,772</u>
Total long-term liabilities	<u>\$2,858,274</u>	<u>\$ 61,126</u>	<u>\$ 396,942</u>	<u>\$2,522,458</u>	<u>\$ 434,993</u>

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Long-term liabilities are as follows as of June 30, 2008:

General Obligation Bonds

1999 Building and Site Construction Bonds, due through May 1, 2014 with annual principal payments ranging from \$305,000 - \$400,000 and semi-annual installments of interest with rates ranging from 4.207% to 4.375%. \$2,275,000

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$2,221 to \$13,676 with interest charged at 4.76%. This bond is a self-liquidating bond. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2015. 23,562

Total bonds **2,298,562**

Other liabilities 223,896

Total long-term liabilities **\$2,522,458**

Bond debt service requirements

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Years Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 332,221	\$ 96,911	\$ 429,132
2010	369,533	86,821	456,354
2011	387,437	68,735	456,172
2012	402,553	52,449	455,002
2013	402,675	35,127	437,802
2014-2015	<u>404,143</u>	<u>18,961</u>	<u>423,104</u>
Total	<u>\$2,298,562</u>	<u>\$ 359,004</u>	<u>\$2,657,566</u>

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Compensated absences and special termination benefits are generally liquidated by the General Fund.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$255,343, \$261,449, and \$272,648, respectively, equal to the required contributions for each year.

Other Post-employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

D. Commitments and contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental and other matters.

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SUPPLEMENTARY INFORMATION

LITTLEFIELD PUBLIC SCHOOL

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>Special Revenue Funds</u>			
	<u>Food Service</u>	<u>Athletics</u>	<u>Durant Settlement</u>	<u>Total</u>
ASSETS				
Assets				
Cash and cash equivalents	\$ 9,540	\$ 2,516	\$ -	\$ 12,056
Due from other governmental units	1,138	-	23,562	24,700
Total assets	\$ 10,678	\$ 2,516	\$ 23,562	\$ 36,756
LIABILITIES AND FUND BALANCES				
Liabilities				
Salary payable	\$ -	\$ 2,516	\$ -	\$ 2,516
Unearned revenue	-	-	23,562	23,562
Total liabilities	-	2,516	23,562	26,078
Fund balances				
Fund balances				
Unreserved, undesignated	10,678	-	-	10,678
Total fund balances	10,678	-	-	10,678
Total liabilities and fund balances	\$ 10,678	\$ 2,516	\$ 23,562	\$ 36,756

LITTLEFIELD PUBLIC SCHOOL

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Special Revenue Funds</u>		<u>Durant</u>	
	<u>Food</u>	<u>Athletics</u>	<u>Settlement</u>	<u>Total</u>
	<u>Service</u>			
Revenues				
Local sources				
Charges for services	\$ 25,875	\$ 14,118	\$ -	\$ 39,993
Interest income	275	-	-	275
State sources	3,346	-	-	3,346
Federal sources	86,961	-	-	86,961
Total revenues	116,457	14,118	-	130,575
Expenditures				
Current				
Food services	121,932	-	-	121,932
Athletics	-	72,712	-	72,712
Total expenditures	121,932	72,712	-	194,644
Revenues under expenditures	(5,475)	(58,594)	-	(64,069)
Other financing sources				
Transfers in	-	58,594	-	58,594
Changes in fund balances	(5,475)	-	-	(5,475)
Fund balances, beginning of year	16,153	-	-	16,153
Fund balances, end of year	\$ 10,678	\$ -	\$ -	\$ 10,678

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GENERAL FUND

JUNE 30, 2008

ASSETS	
Cash and cash equivalents	\$ 277,921
Investments	325,020
Due from other governmental units	<u>225,141</u>
Total assets	<u>\$ 828,082</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 3,482
Salaries payable and related expenses	311,412
Unearned revenue	<u>26,777</u>
Total liabilities	<u>341,671</u>
Fund balance	
Fund balance	
Unreserved	
Designated	
Capital improvements	10,000
Retirement benefits	223,896
Undesignated	<u>252,515</u>
Total fund balance	<u>486,411</u>
Total liabilities and fund balance	<u>\$ 828,082</u>

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF REVENUES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

Revenues	
Local sources	
Property taxes	\$ 1,330,179
Charges for services	11,290
Interest	45,977
Other local revenue	<u>25,018</u>
Total local sources	<u>1,412,464</u>
State sources	
State school aid	1,061,572
Other state revenue	<u>194,827</u>
Total state sources	<u>1,256,399</u>
Federal sources	
Title I	105,913
Title II	49,840
Title V	430
Other	<u>1,118</u>
Total federal sources	<u>157,301</u>
Interdistrict sources	<u>306,453</u>
Total revenues	<u>\$ 3,132,617</u>

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

Expenditures

Instruction

Basic programs

Elementary

Salaries	\$ 520,345
Employee benefits	269,851
Purchased services	15,551
Supplies and materials	26,942

Total elementary	832,689
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Secondary

Salaries	457,616
Employee benefits	228,104
Purchased services	112,440
Supplies and materials	9,795

Total secondary	807,955
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Total basic programs	1,640,644
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Added needs

Special education

Salaries	172,301
Employee benefits	100,404
Purchased services	24,382
Supplies and materials	258

Total special education	297,345
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Vocational education

Purchased services	219,488
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Compensatory education

Salaries	73,293
Employee benefits	36,287
Purchased services	1,540
Supplies and materials	730

Total compensatory education	111,850
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Continued...

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

At risk	
Salaries	\$ 60,164
Employee benefits	26,179
	<hr/>
Total at risk	86,343
	<hr/>
Total added needs	715,026
	<hr/>
Total instruction	2,355,670
	<hr/>
Supporting services	
Other pupil support services	
Salaries	11,412
Supplies and materials	1,334
	<hr/>
Total other pupil support services	12,746
	<hr/>
Instructional staff	
Purchased services	9,242
	<hr/>
General administration	
Board of education	
Salaries	4,440
Benefits	1,278
Purchased services	21,107
Supplies and materials	2,786
	<hr/>
Total board of education	29,611
	<hr/>
Executive administration	
Salaries	112,852
Employee benefits	50,904
Purchased services	9,097
Supplies and materials	2,410
	<hr/>
Total executive administration	175,263
	<hr/>
Total general administration	204,874
	<hr/>

Continued...

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

School administration	
Office of the principal	
Salaries	\$ 2,033
Employee benefits	2,273
Purchased services	122,542
Supplies and materials	1,527
Total office of the principal	128,375
Total school administration	128,375
Business services	
Fiscal services	
Purchased services	59,729
Supplies and materials	715
Total fiscal services	60,444
Other business services	
Purchased services	8,214
Total business services	68,658
Operations and maintenance	
Salaries	4,308
Employee benefits	1,057
Purchased services	147,573
Supplies and materials	101,206
Capital outlay	16,928
Total operations and maintenance	271,072
Pupil transportation services	
Salaries	29,029
Employee benefits	7,394
Purchased services	16,304
Supplies and materials	19,233
Total pupil transportation services	71,960
Total supporting services	766,927
Total operating expenditures	3,122,597

Continued...

LITTLEFIELD PUBLIC SCHOOL

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

Debt service	
Principal - early retirement incentives	<u>\$ 63,500</u>
Total expenditures	3,186,097
Other financing uses	
Transfer out	<u>58,594</u>
Total expenditures and other financing uses	<u><u>\$ 3,244,691</u></u>
	Concluded

LITTLEFIELD PUBLIC SCHOOL
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Receipts	Disbursements	Balances June 30, 2008
ASSETS				
Cash	<u>\$ 27,906</u>	<u>\$ 46,546</u>	<u>\$ 51,337</u>	<u>\$ 23,115</u>
LIABILITIES				
Due to student groups				
High school groups	\$ 19,990	\$ 37,418	\$ 43,827	\$ 13,581
Elementary school groups	5,939	9,077	7,010	8,006
Scholarship payable	<u>1,977</u>	<u>51</u>	<u>500</u>	<u>1,528</u>
Total liabilities	<u>\$ 27,906</u>	<u>\$ 46,546</u>	<u>\$ 51,337</u>	<u>\$ 23,115</u>
The balances at June 30, 2008 consist of the following				
Due to student groups				
High school groups				
Art	\$ 98	\$ -	\$ 98	\$ -
Band	1,427	115	172	1,370
Cheerleaders	(18)	18	-	-
Class of 2008	7,106	6,125	13,231	-
Class of 2009	1,105	2,637	2,799	943
Class of 2010	159	-	-	159
General	(532)	2,471	2,117	(178)
Horticulture	1,358	1,014	1,820	552
Jeans Day Fund	735	-	278	457
Junior Achievement	700	-	-	700
Parents for Safe Graduation	38	3,477	3,515	-
Physical Education	836	-	-	836
Baseball Team	1,672	1,411	1,292	1,791
Softball Team	855	1,048	1,705	198
Boys Basketball	99	-	99	-
Girls Basketball	149	-	149	-
Golf Team	1,600	350	-	1,950
Student Assistance	709	447	314	842
National Honor Society	138	283	232	189
W.I.S.E.	331	-	331	-
Yearbook	443	4,022	1,133	3,332
Public Communication	440	-	-	440
Changing Lives Program	-	14,000	14,000	-
Vending Machines	<u>542</u>	<u>-</u>	<u>542</u>	<u>-</u>
Total high school groups	<u>19,990</u>	<u>37,418</u>	<u>43,827</u>	<u>13,581</u>
Elementary school groups				
Elementary Activity	1,749	2,959	2,175	2,533
Elementary Jeans Day Fund	744	-	-	744
Kindergarten	482	582	584	480
Project Rudolph	-	100	-	100
Sixth Grade	-	-	-	-
Upper elementary	<u>2,964</u>	<u>5,436</u>	<u>4,251</u>	<u>4,149</u>
Total elementary school groups	<u>5,939</u>	<u>9,077</u>	<u>7,010</u>	<u>8,006</u>
Scholarship payable				
Harold G Sellers Scholarship	<u>1,977</u>	<u>51</u>	<u>500</u>	<u>1,528</u>
Total liabilities	<u>\$ 27,906</u>	<u>\$ 46,546</u>	<u>\$ 51,337</u>	<u>\$ 23,115</u>

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 22, 2008

Board of Education
Littlefield Public School
Alanson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Littlefield Public School*** (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2008-1 and 2008-2.

Finding 2008-1: **Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.**

Criteria: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing account data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal controls.

Cause: This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: When feasible, the District should consider training internal accounting personnel to prepare the financial statements.

District's Response: Due principally to state budget cuts and the related negative impact on cash funds available to the District, the hiring of accounting personnel capable of writing the District's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Finding 2008-2 **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

Criteria: All Michigan governments are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the District's management. Adequate segregation of duties as it relates to the cash cycle of a school district requires separation of the management function, the custody of assets function and the accounting function.

Condition: The District's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the District.

Cause: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

Effect: As a result of this condition, the District's system of internal control has safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Board of Education.

District's Response: As noted above, due to decreased cash flows of the District, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the District's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the District's Board of Education assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

Finding 2008-3: **Failure to obtain formal authorization on food service purchases of food and supplies as well as provide adequate segregation of duties between those who may authorize purchases and the custody of assets.**

Criteria : All Michigan governments are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the District's management. Adequate segregation of duties as relates to the cash cycle of a school district requires separation of the management function, the custody of assets function and the accounting function.

Condition: Members of the food service department are responsible for the custody of assets as well as informally approving the purchases of those assets without additional management oversight.

Cause: As is the case with many organizations of similar size, the District lacks a sufficient number of personnel in order to ensure a complete segregation of duties within the food service department as it relates to authorization of purchase and custody of the assets.

Effect: As a result of this condition, the District's system of internal control has safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle as it relates to the food service fund. Ideally, no single individual should authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Board of Education.

District's Response: As noted above, due to decreased cash flows of the District, management is unable to employ the number of personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the District's assets as it relates to activities within the food service fund. Additionally, due to the nature and frequency of food service purchases during the year, implementing a required purchase order policy in which purchase orders would be approved by management prior to placing an order is not considered operationally feasible. To the extent possible, management will implement a process where approval from the Superintendent of the District will be obtained on all food service purchases prior to disbursement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated September 22, 2008.

The District's response to the findings identified is described in the preceding paragraphs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



September 22, 2008

Superintendent and Members of
the Board of Education
Littlefield Public School
Alanson, MI

In planning and performing our audit of the governmental activities, each major fund, and the aggregate remaining fund information of ***Littlefield Public School*** (the “District”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and one deficiency that we consider to be a material weakness. These deficiencies have been documented in the *Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

This communication is intended solely for the information and use of the Board of Education, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated September 22, 2008 on the financial statements of the District.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

LITTLEFIELD PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2008

CHECKS ISSUED PRIOR TO BOARD APPROVAL

During the prior year audit, we noted normal recurring invoices that become due prior to a Board meeting have historically been issued prior to Board approval to meet the payment deadlines. The Board receives a listing of all checks issued at the Board meetings and approves the payments including those issued prior to the Board presentation. To prevent potential unauthorized payments, we recommend that a formal policy be adopted to describe the types of recurring payments that may be released prior to Board approval. We noted that a formal policy has not yet been adopted on checks issued prior to Board approval; however, we noted that supporting documentation for those checks issued between Board meetings were made available to the Board at the subsequent Board meeting. Additionally, we noted that some of the normal recurring checks exceed the District's threshold in which a second signature is required and noted that some recurring checks that exceed the threshold were released with one authorized signature. As noted above, we recommend that the Board adopt a formal policy on checks issued which should also include a threshold amount in which normal recurring checks can still be released with one signature.

EXPENDITURES – COMPLIANCE WITH STATE OF MICHIGAN REGULATIONS

In order to keep the District's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the District's management become familiar with this list in order to prevent the potential for illegal or unauthorized expenditures of the District's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

LITTLEFIELD PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2008

GASB 34 FUND

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2004. A separate fund is to be setup in order to account for GASB 34 requirements. However, the District currently does not have this fund set up on its trial balance. While the State of Michigan does not yet require this fund to be included in the District's accounting records, we recommend that the District create this fund on its trial balance and adjust it annually.

APPROVAL ON FOOD SERVICE PURCHASES OF FOOD AND SUPPLIES

During the current year through internal control procedures performed, we noted that the District does not currently obtain formal approval on payments for food service purchases of food and supplies. Invoices for the food service department have traditionally been forwarded to accounting with an implied approval; however, no formal approvals have been obtained. Additionally, due to the frequency of the purchase, requiring the use of purchase orders is not feasible. Therefore, we recommend that the District require the food service manager to initial each invoice as evidence of approval and forward the invoices to the Superintendent for final approval on all food service purchases prior to payments to the vendors are released.

BOARD APPROVAL ON ALL CHECK REGISTERS

We noted during the current year, that although check registers for food service and athletics are presented to the Board, the Board only formally approves checks issued out of the General Fund. We recommend that the Board begin to reviews all check registers presented and formally approve each check register for payment.

**PRIOR YEAR COMMENTS AND RECOMMENDATIONS THAT HAVE BEEN ADDRESSED
DURING THE CURRENT YEAR**

APPROVALS OF NON-RECURRING MAINTENANCE EXPENSES

Per District policy, a requisition form must be completed and approved in order to purchase goods. The individual requesting the purchase completes the form. The form is then to be submitted to either the Principal or Supervisor for review and approval, as evidenced by signature on the form. We noted in the prior year, that due to a lack of a maintenance manager, the approvals have not always been obtained. During the current year, after the recommendation was made, we noted that the District began obtaining proper approval on all maintenance related purchases.

LITTLEFIELD PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2008

CHECKS ISSUED TO EMPLOYEES

In the prior year, we noted that there were certain checks issued to employees for reimbursable expenses that were signed by the employee in which the check was issued. Although, we noted the check issued was deemed approved based on provisions of the employees' contract, we recommend that an authorized signer other than the employee in which the check is issued, should sign the check. We noted that the District stopped allowing employees who are authorized signer on the District' bank accounts to sign checks issued to themselves.

CONCLUSION

It has been a pleasure to provide audit services to *Littlefield Public School*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.